

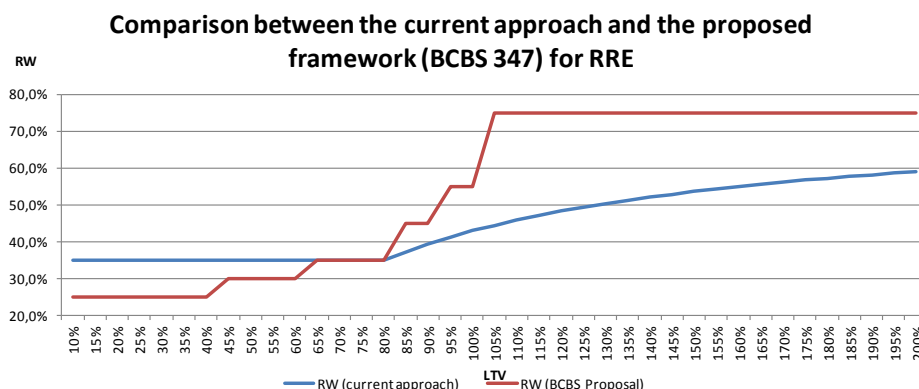
Second BCBS consultative document on the revision to the Standardised approach for credit risk

General comments

1. The APB welcomes the opportunity to comment on the second consultation paper published on December 2015 by the Basel Committee on Banking Supervision (BCBS) on revision of the Standardised approach for credit risk.
2. APB generally supports the comprehensive and detailed EBF response to the present BCBS consultation paper. However, regarding the treatment of Residential Real Estate exposures we believe the risk weight calibration proposed by the Committee is not aligned with its objective of not increasing substantially the overall capital requirements under the standardised approach for credit risk.

Residential Real Estate:

- We support the increase of the risk sensitivity through the introduction of the LTV ratio as the main risk driver for the computation of the risk weighted assets (RWA) for RRE exposures.
- However, we reiterate our concerns regarding the use of the guarantee value fixed from the origination date (as proposed) until the maturity date, as it will not reflect real estate prices variation, which experience shows as being one of the most important factors in the recovery process and, consequently, in the expected and unexpected loss assessment.
- Bearing in mind that it is not the objective of the Basel Committee to increase the overall capital requirements under the standardised approach for credit risk, but to strengthen the risk sensitivity and maintain a simple approach, we find at odds that the introduction of the LTV ratio is being used to originate a substantial increase in the overall RWA, departing from the current framework that is also based, although indirectly, on the LTV.
- If the risk driver is not changed and if it is not the objective of the Committee to increase substantially the RWA, we question the substantial difference of risk weights between the current and the proposed framework, as shown in the graph below:



- Besides the substantial increase on capital requirements, the proposed calibration will create cliff effects that do not exist within the current framework which is already based on the LTV.
- On the other hand, if the objective of the Committee is to substantially increase capital requirements for RRE, it is our opinion that there is a lack of adherence to past evidence on the unexpected losses observed in this asset class.
- In our opinion, the risk weights for LTV values above 80% should be revised and lowered in order to adequately address the risk weight neutrality objective of the Committee between the current and the final approach. This can be achieved by seeking a calibration that allow a matching of the areas between both curves (approaches) in the graph above, before and after the intersection point (LTV = 80%).